M Pharmaceutical Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

Period Ended – December 31, 2016

This Management Discussion and Analysis ("**MD&A**") of M Pharmaceutical Inc. (the "Company") provides analysis of the Company's financial results for the annual and fourth quarter ending December 31, 2016. The following Information should be read in conjunction with the audited financial statements for the year ended December 31, 2016 and 2015.

FORWARD-LOOKING STATEMENTS

Forward-looking statements look into the future and provide an opinion as to the effect of certain events and trends on the business. Forward-looking statements may include words such as "plans", "intends", "anticipates", "should", "estimates", "expects", "believes", "indicates", "suggests" and similar expressions.

This MD&A contains forward-looking statements. These forward-looking statements are based on current expectations and various estimates, factors and assumptions of management and are subject to known and unknown risks, uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. In particular, forward-looking information and statements contained in this MD&A include: (i) statements regarding the further development and regulatory approvals of the Company's intellectual property; and (ii) statements regarding the requirement that additional cash will be required. Risk factors that could cause results to differ materially include changes to regulatory rules, changes to market conditions and the ability of the Company to obtain adequate financing. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of the Company should not place undue reliance on these forward-looking statements. In addition, forward-looking statements include with respect to the commercialization of the rights to the eMosquito, Trimeo and Trimtec biomedical technologies. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. These statements speak only as of the date of this this Management Discussion and Analysis ("**MD&A**") of M Pharmaceutical Inc. (the "Company"). Actual results could differ materially from those currently anticipated due to a number of factors and risks including various risk factors discussed in the Company's disclosure documents which can be found under the Company's profile on www.sedar.com and such factors as the Company failing to complete the commercialization of the its biomedical technologies.

The forward-looking statements contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

Date of Report: April 29, 2017

General

M Pharmaceutical Inc. ("the Company") is a biomedical technology company developing innovative products for the treatment of obesity and weight loss.

Prior to its recent acquisition of its reformulated orlistat drug ("C-103"), the Company had acquired the exclusive rights to three technologies: (1) Trimeo capsules, temporary controllable pseudobezoars for non-invasive gastric volume reduction for the treatment of obesity; (2) Trimtec, gastrointestinal neurostimulators implanted laparoscopically for the treatment of obesity and gastroparesis without permanent anatomical modification of the stomach; and (3) eMosquito wearable blood monitor, for automatic and autonomous monitoring of blood glucose by diabetics. The Company intends to minimize continued investment in Trimtec and eMosquito to concentrate its development efforts on its oral products for obesity and weight loss, Trimeo and C-103. On July 15, 2016 the Company acquired assets from Chelatexx, LLC related to C-103. The addition of C-103 provides a novel weight loss pharmaceutical product to the M Pharma pipeline. The Company paid an up-front cash payment of $262,905, has issued 10 million common shares at a deemed price of $0.10 per share, and will pay a low single-digit royalty on net sales. 10% of the common shares issued will be subject to trading restrictions until November 8, 2016. The balance of the common shares issued are subject to an escrow agreement that will have them released over the 3 years from the date of closing.

Commercial development of these biomedical technologies will require successful coordination and execution of a wide variety of technology disciplines.

The Company was incorporated on March 11, 2003 under the laws of the Province of Ontario. On November 26, 2014, the Company was continued into the Province of Alberta from Ontario. The address of its head office is suite 734-1055 Dunsmuir Street, Vancouver, BC V7X 1B1.

The Company was formerly engaged in the acquisition, exploration and evaluation of resource properties. As at the date of this report, it has disposed of all its resource properties to pursue its biomedical technology business.

Overall Performance

Overall, the year has marked a critical transition in the business of the Company. M Pharmaceutical Inc. is committed to developing and commercializing innovative biomedical technologies for the treatment of obesity and weight loss. During the past 18 months, the Company has underwent many significant changes, including a change of business, various financings and divestitures, with highlights as described below.

On November 26, 2014, the Company entered into a letter of intent for the acquisition of M Diagnostics Inc., a Calgary-based company owning all of the intellectual property and commercial rights to a glucose monitoring device named the e-mosquito, along with all relevant patents. This transaction subsequently closed. The Company is obligated to pay a 3% royalty on all future e-mosquito product sales, issued 806,667 (8,066,678 before consolidation) common shares of the Company's common stock and made a cash payment of USD $150,000 upon closing on February 19, 2015.

In February 2015, the Company disposed of its New Brunswick and Quebec resource properties in exchange for 5,000,000 common shares in a private company and 5,000,000 common shares of its subsidiary.

In February 27, 2015, the Company entered into an agreement for the acquisition of a private company, RX Global Capital Inc. RX Global Capital holds a perpetual, exclusive, world-wide license of all intellectual property and commercial rights to the technology of temporary, controllable pseudobezoars, (the "License Agreement") owned by Eatlittle, Inc. This transaction closed on April 28, 2015. The Company issued a total of 9,522,400 common shares at a deemed price of $0.25 per share, including 3,500,000 shares to EatLittle Inc. pursuant to the License Agreement. These 3,500,000 shares are subject to a 3 year escrow agreement, with 10% of the escrowed shares being immediately releasable, and the balance being released in equal tranches every six months thereafter. The Company also issued 5,664,000 replacement warrants, exercisable at $0.25 per warrant.

On May 7, 2015, the Company entered into an agreement for the acquisition of rights to intellectual property associated with neural gastrointestinal stimulators through the purchase of Trimtec Biomedical, Inc., a private British Columbia company, for 1000 common shares of M Pharmaceutical. Since the transaction, Trimtec Biomedical, Inc. operates as a wholly owned subsidiary of M Pharmaceutical and holds a license to the technology with UTI Limited Partnership at the University of Calgary in Alberta. Under this license, Trimtec Biomedical paid an initial fee of $50,000 and is obligated to repay patent costs of $156,937 to UTI over 20 months, a milestone payment of $10,000 and ongoing royalty of 3% on sales. This transaction closed on June 26, 2015.

On November 8, 2016, the Company closed on an agreement to acquire intellectual property assets from ToConceive LLC, an arm's length party, related to a women's health product used as an infertility treatment. The purchase price consisted of 20,000,000 common at USD $0.035 (USD $700,000) per share and a 5% royalty on sales of any product based on the intellectual property rights.

On February 16, 2017, the Company acquired certain assets from 40J's LLC, a private Ohio company. The Company paid $300,000 in cash at closing, issued 38,837,000 shares and unsecured 5 year notes in the principal amount of $2,500,000 which are convertible, at the option of either the Company or the Holders, into common shares of the Company at such time as the Company completes a financing in excess of $1,000,000 on the same terms of such financing. All references to dollars in this note are to US currency. The Company is also liable for deferred cash payments and possible milestone payments of approximately $3,450,000 and will pay a mid-single digit royalty on sales of the female sexual dysfunction drug once commercialized.

The assets purchased consisted of a number of patents relating to an FDA cleared topical gel combining Menthol & L-arginine. This innovative formulation can be paired with many different ingredients to address a multitude of medical issues. 40J's LLC is an an ongoing business that currently generates revenues from these products.

Selected Annual Information

This financial data has been prepared in accordance with International Financial Reporting Standards as issued by the IASB accounting and all figures are stated in Canadian dollars.

*G&A and Operating Expense	Year Ended 12/31/16	Year Ended 12/31/15 Restated	Year Ended 12/31/14
Net Income (loss) before and after taxes	2,068,492	3,977,900	(399,424)
Basic and diluted loss per share	(0.01)	(0.18)	(0.01)
Total assets	2,810,686	582,883	502,129
Current liability	2,592,304	1,687,358	1,008,540
Total long-term liabilities	-	-	-
Dividends declared per share	Nil	Nil	Nil

Net Revenue and Net Income (Loss) for the last eight (8) quarters

	2016 Dec. 31	2016 Sep. 30	2016 Jun. 30	2016 Mar. 31	2015 Dec. 31	2015 Sep. 30	2015 Jun. 30	2015 Mar. 31
Revenue (net of royalties)	-	-	-	-	-	-	-	-
Net Income/(Loss)	(148,641)	(1,073,293)	(939,285)	92,727	(2,989,559)	(738,945)	(832,080)	(502,052)
Basic/Diluted Income/(Loss) Per Share	(0.00)	(0.01)	(0.01)	(0.00)	(0.11)	(0.03)	(0.04)	(0.04)
Number of shares Outstanding	137,173,482	110,540,814	89,448,174	33,150,355	33,198,829	26,734,766	25,920,559	14,273,343

General & Administrative and Operating Expenses

Combined General & Administrative and Operating expenses* (see table below) for the year ended December 31, 2016 was $1,868,668 (versus $1,695,349 for the year ended December 31, 2015). The Company incurred more operating expenditures due to an increase in interest expenses.

Consulting fees decreased to $653,424 for the year ended December 31, 2016 ($922,779 – 2015) due to a decrease in research and development activities.

Professional fees increased to $754,483 for year ended December 31, 2016 ($312,176 - 2015) due to an increasing in acquisition and financing activities during the period.

Travel expenses were decreased to $117,546 for the year ended December 31, 2016 ($118,177 - 2015) due to a decreasing in research and development activities during the period.

Interest expense decreased to $(27,602) for the year ended December 31, 2016 ($(2,776) - 2015) due to a decrease in debenture interest.

*G&A and Operating Expense	Year Ended 12/31/16	Year Ended 12/31/15	Change ($)	Change (%)
Professional fees	754,483	312,176	442,307	141.69%
General and administrative	69,330	339,441	(270,111)	(79.58)%
Travel and promotions	117,546	118,177	(631)	(0.53)%
Payroll	109,898	-	109,898	100,00%
Consulting fees	653,424	922,779	(269,355)	(29.19)%
Research and development	106,385	-	106,385	100.00%
Interest Expenses	(27,602)	(2,776)	(24,826)	(894.31)%
	1,783,464	1,689,797	93,667	5.54%

Liquidity and Capital Resources

At December 31, 2016 the Company has a cash position of $715,290 (December 31, 2015 - $1,474). The Company had a net working capital deficiency of $1,800,558 (December 31, 2015 – working capital deficiency $1,674,258).

The ability of the Company to settle its obligations is dependent upon the Company being able to obtain financing to continue to research and develop its products and to commence commercialization and sales. Operations may be hindered by a future working capital deficiency. The success of the Company depends on the Company obtaining further funds to ensure its liquidity.

Investments

In February 2015 the Company disposed of its assets held for sale and the associated decommissioning obligation in exchange for 5,000,000 common shares in a private company and 5,000,000 common shares of the private company's subsidiary. The value attributed to the shares is equal to the carrying value of net assets disposed of which was $nil. 2,000,000 common shares of the private company were transferred to a promissory note holder. The Company incurred $17,091 of expenditures related to the assets held for sale, which have been recognized in the statement of profit and loss.

Off Balance Sheet Arrangements

There are no off balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

The following is a summary of the Company's related party transactions during the period:

The following is a summary of the Company's related party transactions during the period:

(a) Key Management compensation consists of:

(i) Consulting fees and director salaries

During the year ended December 31, 2016, the Company incurred total consulting fees to the directors and to the director's companies for $90,000 (2015 - $108,400) of which $21,000 (2015 - $10,500) is owed at period end.
During the year ended December 31, 2016, the Company incurred total director salaries of $101,398 for its US subsidiary.
During the year ended December 31, 2016, the Company incurred total consulting fees to Management and to Management's companies for $159,741 (2015 - $361,276). A balance of $37,909 (2015 - $15,833) is owed at period end.

(ii) Accounting fees

During the year ended December 31, 2016, the Company incurred and paid total accounting fees to the Management's company for $37,800 (2015 – 20,000).

(iii) Legal and Professional fees

During the year ended December 31, 2016, the Company incurred and paid total legal and professional fees to a director's company for $252,893 (2015 - $182,167). A balance of $324,970 (2015 - $342,874) is owed at year end.

PROMISSORY NOTES PAYABLE

On March 8, 2012, the Company issued a promissory note with a face value of $300,000 bearing annual interest of 10% payable in common shares. The promissory note matured on March 8, 2014. The Company settled the promissory note with $200,000 of cash, 2,000,000 common shares of the Company, 1,000,000 warrants at a strike price of $0.50 per share, 2,000,000 common shares of a private exploration company (Note 11), and a new promissory note for principal amount of $100,000 that matures June 29, 2016 and bears annual interest of 10% which is payable at the anniversary of the note. On December 31, 2016, promissory note is still outstanding.

The common shares of the Company were valued at $60,000, based on closing price on the day they were issued. The common share purchase warrants were valued at $40,000 (Note 8(c)). Common shares of the exploration private company were valued at $Nil. The new promissory note was recorded at its fair value of $53,526. The discount rate used in the present value calculation was 53%. The difference between the carrying value of previous promissory note and above mentioned items is $15,761 which is considered a gain on settlement and is recorded in the statement of comprehensive loss during the period.

RX Global Capital Inc. issued promissory notes to shareholders before being acquired by the Company with a face value of $280,000. Principal is payable on March 31, 2016. Interest is payable on the principal amount outstanding hereunder at ten percent (10%) per annum, calculated annually, with interest on the outstanding principal payable semi-annually on March 31 and September 30 of each year, commencing September 30, 2015; provided that any missed or late payments under the Note shall bear interest on such missed or late payment amounts at the same amount until such missed or late payments are paid.

The promissory note was recorded at its fair value of $208,400 on the date of acquisition by the Company, April 27, 2015 (Note 6). The discount rate used in the present value calculation was 53%.

The promissory notes were extinguished by convertible debentures on October 27, 2015 (Note 13). The fair value on the date of extinguishment was $245,000. The discount rate used in the present value calculation was 53%.

During the year ended December 31, 2016 $27,282 accretion and interest was recorded.

	December 31, 2016	December 31, 2015
Balance, beginning of the period	**$ 92,718**	$ 66,907
Issuance of promissory notes	**-**	208,400
Accrued accretion and interest expense	**27,282**	76,411
Repayment, principle and interest	**-**	(259,000)
Balance, end of the period	**$ 120,000**	$ 92,718

Share Capital

Common Shares Outstanding

Unlimited number of common voting shares. The common shares do not have a par or stated value. All issued common shares are fully paid.

On April 16, 2015, the Company consolidated its common shares on the basis of ten old common shares for one new common share. The consolidation was approved by shareholders at a special meeting of the Company held on October 10, 2014 and was approved by the Canadian Securities Exchange ("CSE") in April 2015. All common shares, warrants, and options are presented on a post consolidation basis.

In February 2015, the Company completed a private placement and raised gross proceeds of $1,080,000 by issuing 5,400,000 units at $0.20 per unit. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable for 2 years from closing at an exercise price of $0.50 per common share. The common share purchase warrants were recognized, as derivative liability as they breached the fixed for fixed criteria, using the assumptions in Note 9.

The Company issued 110,600 finder's warrants related to the February 2015 private placement. The Company recognized $9,000 of share issue costs related to the finder' warrants, using the following assumptions: Term 1 year, Share Price $0.20, Exercise Price $0.50, Volatility 169%, Risk Free Rate 1.25%, Dividend Rate Nil.

On May 8, 2015, the Company issued 2,124,814 common shares to settle $361,218 of trade payables owed to consultants and other service providers, of which $103,450 was due to a director of the Company. A loss of $106,241 was recorded on the settlement.

On July 16, 2015, the Company issued 369,200 common shares to settle $44,304 of trade payables of the Company. A gain of $7,384 was recorded on the settlement.

On September 15, 2015, the Company issued 2,000,000 common shares. The common shares were issued pursuant to the executive consulting contract owing by the Company. This amount has been recognized as stock based compensation in the profit and loss.

On September 15, 2015, the Company issued 330,000 common shares. The common shares were issued pursuant to exercised warrants with an exercise price of $0.13 per common share. The warrants were repriced from $0.50 per common share and subsequently exercised. The derivative liability related to the warrants was $43,000, which was reclassified to share capital on the exercise of the warrants.

On September 15, 2015, the Company issued 70,000 common shares. The common shares were issued for cash with an exercise price of $0.13 per common share.

On June 27, 2016, the Company completed a private placement and raised gross proceeds of $860,830 by issuing 34,433,179 units at $0.025. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable for 1 year from closing at an exercise price of $0.05 per common share. The common share purchase warrants were recognized, as derivative liability as they breached the fixed for fixed criteria, using the assumptions in Note 9.

The Company issued 868,800 finder's warrants related to the June 27, 2016 private placement. The Company recognized $10,000 of share issue costs related to the finder' warrants, using the following assumptions: Term 1 year, Share Price $0.025, Exercise Price $0.05.

On July 11, 2016 2,000,000 shares were issued pursuant to exercise of warrants at $0.05 for cash proceeds of $100,000. The derivative liability related to the warrants was $73,800, which was reclassified to share capital on the exercise of the warrants.

Subsequent to year end 4,375,000 warrants expiring on February 6, 2017 and 1,025,000 warrants expiring on February 13, 2017 were repriced from $0.50 to $0.05 and 1,932,500 warrants were exercised.

Warrants

On February 6, 2016 110,600 common share purchase warrants expired unexercised. On June 18, 2016 5,174,998 common share purchase warrants expired unexercised.

A summary of the changes in the Company's share purchase warrants during the year ended December 31, 2016 and December 31, 2015 (post consolidated) are as follows:

	Number of Warrants (Post Consolidated)	Weighted Average Exercise Price
Balance, January 1, 2015	**6,708,998**	**$ 0.50**
Issued	15,634,196	$ 0.29
Exercised	(330,000)	$ 0.13
Expired	(1,104,000)	$ 0..50
Balance, December 31, 2015	**20,909,194**	**$ 0.35**
Issued	70,295,619	$ 0.05
Exercised	(2,000,000)	$ 0.05
Expired	(5,285,598)	$ 0.50
Balance, December 31, 2016	**83,919,215**	**$ 0.10**

As at December 31, 2016, the following common share purchase warrants were outstanding:

Expiry date	Exercise Price ($)	Warrants
July 24, 2017	0.50	100,000
February 6, 2017	0.50	4,375,000
February 13, 2017	0.50	1,025,000
October 27, 2017	0.10	4,459,596
February 7, 2017	0.25	5,440,000
February 7, 2020	0.25	224,000
June 27, 2017	0.05	34,433,179
June 27, 2017	0.05	868,800
June 30, 2017	0.05	18,864,640
June 30, 2017	0.05	1,640,000
September 7, 2018	0.08	6,774,640
September 7, 2018	0.08	94,840
September 20, 2018	0.08	1,678,000
September 20, 2018	0.08	15,520
October 3, 2017	0.08	3,926,000
		83,919,215

Stock Options

The Company has established a stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors and employees of the Company as well as persons providing ongoing services to the Company. The maximum number of common shares reserved for issuance upon the exercise of options is not to exceed 10% percent of the total number of common shares outstanding immediately prior to such an issuance. Under the plan, the Board of Directors has the choice of either vesting or allowing options issued to be exercisable upon issuance. Options are normally issued for a five-year term. During the year ended December 31, 2016, 7,400,000 (2015 – 2,775,000) options were granted. The stock options granted vest 1/3 of the immediately, 1/3 on the first anniversary and 1/3 on the second anniversary.

A summary of the share option transactions for the year ended December 31, 2016 and 2015 are summarized as follows:

	Number of Options*	Weighted Average Exercise Price
Balance, December 31, 2015	**2,352,750**	**$ 0.17**
Granted	7,400,000	$ 0.08
Expired	(1,302,750)	$ 0.15
Balance, December 31, 2016	**8,450,000**	**$ 0.09**

The following table summarizes stock options outstanding and exercisable under the Company's stock option plan as at December 31, 2016:

Expiry date	Options Outstanding*	Exercise Price per share ($)	Options Exercisable
May 17, 2020	400,000	0.17	266,667
June 10, 2020	650,000	0.17	433,333
July 25, 2021	7,400,000	0.08	2,466,667
	9,750,000	0.09	3,166,667

The stock options were valued at issuance using the Black-Scholes Option Pricing Model and the following assumptions. The unvested stock options issued to non-employees were revalued at the end of the period.

	December 31, 2016	December 31, 2015
Exercise price	$0.08	$0.11-$0.17
Grant date share price	$0.08	$0.06-$0.21
Time to maturity	5 years	5 years
Risk-free rate	0.65%	1.25%
Volatility	227%	169%-172%
Dividend rate	nil	nil

Convertible debentures

On October 27, 2015, the Company issued unsecured convertible securities ("Debentures") with face value of $743,266 to settle trade payables in the amount of $449,266 and promissory notes with fair value of $245,000 (Note 13).

Each Debenture is convertible to common shares at an exercise price of $ 0.10. However, the conversion price will be adjusted if the Company completes a rights offering for less than 90% of the quoted price. The variability of the conversion price creates a derivative which has been recognized as a financial liability ("triggering event").

The terms of the October 27, 2015 debentures are 36 months at 10% annual simple interest. The interest was paid up front through the issuance of Prepaid Interest Units on the date of issuance. Each Interest Unit consists of one common share of the Company's common stock and one common share purchase warrant with an exercise price of $0.08 and a term of two years. The conversion price will be adjusted if the Company completes a rights offering for less than 95% of the quoted price. The variability of the conversion price creates a derivative which has been recognized as a financial liability

On June 28, 2016 the Company completed a private placement for less than 90% of the quoted price, consisting of units consisting of shares and warrants with an exercise price of $0.025 (Note 8, Note 9 and Note 13), therefore triggering the ratchet clause of the October 27, 2015 debentures. As such, on June 28, 2016 the Company amended the remaining $117,283 October 27, 2015 debentures, such that the exercise price was reduced to $0.025 for one unit which consists of one share and one common share purchase warrant. In all other respects, the terms of the original debentures remain unchanged.

Subsequent to amendment, on June 30, August 10, 2016 and October 3, 2016, $521,614, $41,000, and $98,150 respectively of the October 27, 2015 debentures were converted into 20,864,640 common shares valued at $104,813, $2,558, and $6,097 respectively. The aggregate impact was a reduction of

the debenture value of $113,468.

On September 7, 2016 (“Tranche 1”) the Company issued an unsecured convertible securities (“Debentures”) with face values of $1,693,660. In connection the closing, 6,774,640 common shares and warrants were issued as prepaid interest. In addition, finder’s fees of $100,040 and 94,840 broker warrants, which have the same terms as the warrants issued as part of the Prepaid Interest Units, were issued. All securities issued on this closing are restricted from trading until January 8, 2017.

On September 20, 2016 (“Tranche 2”) the Company issued an unsecured convertible securities (“Debentures”) with a face value of $404,500. In connection the closing, 1,678,000 common shares and warrants were issued as prepaid interest. In addition, finder’s fees of $15,520 and 15,520 broker warrants, which have the same terms as the warrants issued as part of the Prepaid Interest Units, were issued. All securities issued on this closing are restricted from trading until January 21, 2017.

Each debenture of Tranche 1 and Tranche 2 are convertible into common shares at an exercise price of $0.075. However, the conversion price will be adjusted if the Company completes a rights offering for less than 90% of the quoted price. The variability of the conversion price creates a derivative which has been recognized as a financial liability.

The terms of the Tranche 1 and Tranche 2 debentures are 36 months at 10% annual simple interest. The interest was paid up front through the issuance of Prepaid Interest Units. Each Interest Unit consists of one common share of the Company’s common stock and one common share purchase warrant with an exercise price of $0.08 and a term of two years. The conversion price will be adjusted if the Company completes a rights offering for less than 95% of the quoted price. The variability of the conversion price creates a derivative which has been recognized as a financial liability.

The fair values of the loans on the date of issuance were determined to be $238,202 and $57,337 for each the September 7, 2016 and September 20, 2016 debentures respectively by applying a risk-adjusted rate of 85.9% and 85.83% respectively to discount the monthly repayments over the life of the loan. During the year accretion expense of $nil was recognized for each of the tranches. During the year interest expense of $47,560 and $10,286, were recognized on tranche 1 and tranche 2 respectively.

The conversion features were determined to be embedded derivatives and as the valuation model consisted of both market observable and unobservable inputs, the derivative liabilities were initially recognized on the statement of financial position at the transaction price amount of $1,119,451 and $270,944 on initial recognition for September 7, 2016 and September 20, 2016 respectively. At December 31, 2016, after re-valuation, a gain of $1,010,967 and $248,796 for the September 7, 2016 and September 20, 2016 tranches respectively were recognized in profit or loss.

The warrants were determined to be embedded derivatives and were estimated to have a value of $336,007 and $76,219 on initial recognition for September 7, 2016 and September 20, 2016 respectively. At December 31, 2016 after re-valuation, a gain of $321,394 and $71,582 on the September 7, 2016 and September 20, 2016 debentures respectively were recognized in profit or loss.

The warrants and conversion feature were valued using Black Scholes Model with the following assumptions:

	Warrants		Conversion Feature	
	September 7, 2016	September 20, 2016	September 7, 2016	September 20, 2016
Exercise price	$0.08	$0.08	$0.075	$0.075
Time to maturity	2	2	3	3
Risk-free rate	55%	59%	55%	59%
Volatility	40.8%	43.5%	40.8%	43.5%

Dividend rate	nil	nil	nil	nil

In December 2016 debentures with a face value of $172,500 from Tranche 1 were converted into 2,300,001 common shares. The aggregate impact was a reduction of the debenture value of $23,890.

On December 21, 2016, $35,000 of the September 22, 2016 Tranche 2 debentures were converted into 466,667 common shares. The debenture value was reduced by $4,885.

Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements in accordance with IFRS.

(a) Cash and cash equivalents

Cash equivalents include money market instruments and short term deposits which are readily convertible into known amounts of cash or have a maturity at the date of purchase of less than ninety days.

(b) Impairment of long-lived assets

Long-lived assets, including equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

(c) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

(d) Stock-based compensation

The Company has an employee stock option plan. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates

actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate.

For stock options granted to non-employees the compensation expense is measured at the fair value of the goods and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. Consideration paid by employees or non-employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from contributed surplus to share capital.

(e) Earnings/loss per share

The Company presents basic and diluted earnings/loss per share data for its common shares. Basic earnings/loss per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings/loss per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise warrants and share options issued. Items with an anti-dilutive impact are excluded from the calculation.

(f) Financial instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent.

(i) Financial assets

The Company initially recognizes financial assets at fair value on the date that they are acquired, adjusted for transaction costs, if applicable. All financial assets (including assets designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company classifies its financial assets as available for sale or loans and receivables. Available-for-sale financial assets are initially recognized at fair value. Subsequent measurement is at fair value with unrealized gains or losses recognized in other comprehensive income. On disposal of an available-for-sale asset, a reclassification adjustment from other comprehensive income to profit or loss is recorded for the fair value adjustment previously recognized in total comprehensive income for the assets disposed of.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Financial liabilities

The Company initially recognizes financial liabilities at fair value on the date that they are originated, and are adjusted for transaction costs, if applicable. All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies its financial liabilities as either financial liabilities at fair value through profit or loss, or other liabilities. Subsequent to initial recognition other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in profit or loss.

(iii) Transaction costs

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added

to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

(iv) Impairment of financial assets

Financial assets, other than those classified at fair value through profit and loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

(g) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, common share purchase warrants, stock options, and flow-through shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(h) Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive as a result of a previous event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligations. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the expected future cash flows.

(i) Intangible assets

The Company owns intangible assets consisting of licensed patent rights and patent rights it acquired through acquisitions. An intangible asset acquired in a business combination and has a finite life is recognized at its fair value on the date of acquisition, which is then charged to operating expenses through amortization. The intangible assets will be amortized once commercial operations commence.

Impairment tests on intangible assets with indefinite lives are undertaken annually at the financial year-end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly. Any impairment loss is charged to profit or loss.

(j) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the Company's statement of comprehensive loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the company intends to and has sufficient resources to complete development and to use or sell the asset. These criteria will be deemed by the Company to have been met when revenue is received by the Company and a determination that the criteria to capitalize development expenditures have been met, the expenditure capitalized will include the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are expensed as incurred. Capitalized development expenditures will be measured at cost less accumulated amortization and accumulated impairment losses.

(l) Foreign currency

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end

date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in profit or loss. Exchange gains and losses arising on the retranslation of available-for-sale financial assets are treated as a separate component of the change in fair value and are recognized in profit and loss.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in profit or loss or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

(m) New and revised IFRS in issue but not yet effective

IFRS 9 Financial Instruments

IFRS 9 was issued by the International Accounting Standards Board ("IASB") in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. The effective date of IFRS 9 is January 1, 2018. Management is currently evaluating the impact of IFRS 9 on its financial statements.

IFRS 15- Revenue from Contracts with Customers

The IASB issued this standard to replace IAS 18 which establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The standard is effective for the Company for annual periods beginning on January 1, 2018, with required retrospective application and early adoption permitted.

Amendments to IAS 16- Property, Plant and Equipment and IAS 38- Intangible Assets

In May 2014, the IASB issued amendments to IAS 16 and IAS 38 to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38 eliminate the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

Critical judgments and accounting estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

(a) Impairment of non-financial assets (Judgment)

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

(b) Share-based payment transactions (Estimate)

The Company measures the cost of equity-settled transactions with employees and non-employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield of the share option.

(c) Off-market and convertible debt (Estimate)

The Company measures the fair value of the liability component of debt using a valuation technique significantly dependent on the assumption of a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert to equity. Similarly, when debt is issued to non arm's length individuals to the Company, a market rate of interest is required to determine the fair value of the instrument on initial recognition. The derived fair value estimate cannot always be substantiated by comparison with independent markets. The assumptions used for estimating fair value for debt are disclosed in Notes 13.

(d) Derivative liability (Estimate)

Estimating fair value for derivative liability transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the instrument. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life and volatility of the conversion feature.

(e) Decommissioning provisions (Judgment)

Amounts recorded for decommissioning obligations and related accretion are based on management's best estimate of the present value of the future decommissioning, abandonment and site reclamation costs and consider the current economic environment, the expected extent and timing of decommissioning, abandonment and site reclamation activities, related government regulations including lease liability ratings, inflation and obligation specific discount rates. These estimates are reviewed periodically. Actual decommissioning, abandonment and site reclamation costs will ultimately depend on future events and may be higher or lower than the amounts currently recorded.

(f) Impairment of assets held for sale (Judgment)

The Company assesses, at each reporting date, whether there is objective evidence that assets classified as held for sale are impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset held for sale that can be reliably estimated. Evidence of impairment may include

indicators that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Significant judgment is required to assess the Company's assets held for sale for impairment. Management must first determine whether indicators of impairment exist that suggest the carrying value may not be recoverable through the asset's continued use or sale.

(g) Going concern (Judgment)

These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment to assess the Company's ability to continue as a going concern and the conditions that cast doubt upon the going concern assumption (Note 2).

Capital management

The Company considers its capital structure to include working capital, debt and shareholders' equity. The Company monitors capital based on annual funds used in operations, flow through share obligations and the availability of debt and equity capital. The Company prepares budgets for its capital expenditures, which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors.

The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. In order to maintain or adjust its capital structure, the Company may issue new shares. The Board of Directors does not establish quantitative return on capital criteria for management. The Company is not subject to any externally imposed capital requirements and the Company's overall strategy with respect to capital management remains unchanged from the year ended December 31, 2015.

Regulatory Risks

The activities and biomedical products of the Company will be subject to regulation by governmental authorities, including Health Canada, the U.S. Food and Drug Administration, and others. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

Limited Operating History

The Company has yet to generate revenue from the sale of products. The Company is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

Reliance on Management

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such

employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

Dependence on patent and other proprietary rights.

The Company operates in an industry characterized by extensive patent litigation. Patent litigation can result in significant damage awards and injunctions that could prevent the manufacture and sale of affected products or require the Company to pay significant royalties in order to continue to manufacture or sell affected products. At any given time, the Company could be involved as both a plaintiff and a defendant in a number of patent infringement actions, the outcomes of which may not be known for prolonged periods of time. While it is not possible to predict the outcome of patent litigation, the Company believes the results associated with any such litigation could result in the payment of significant monetary damages and/or royalty payments, negatively impacting the ability to sell current or future products, or prohibiting the Company from enforcing its patent and proprietary rights against others, which would generally have a material adverse impact on consolidated earnings, financial condition, and/or cash flows.

Factors which may Prevent Realization of Growth Targets

The Company is currently in the early development stage. There is a risk that the Company will not be able to obtain additional resources on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following:

- delays in obtaining, or conditions imposed by, regulatory approvals;
- non-performance by third party contractors;
- increases in materials or labour costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labour disputes, disruptions or declines in productivity; and
- inability to attract sufficient numbers of qualified workers.

As a result, there is a risk that the Company may never have product for shipment to meet the anticipated demand or to meet future demand when it arises.

The Company has a history of net losses, may incur significant net losses in the future and may not achieve or maintain profitability.

The Company has incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable.

Additional Financing

The building and operation of production facilities and businesses are capital intensive. In order to execute the anticipated growth strategy, the Company will require some additional equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available when needed or on terms which are acceptable. The Company's inability to raise financing to support on-going operations or to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

The biomedical device & pharmaceutical industries are highly competitive

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

The Company faces a mixture of competitors ranging from large manufacturers with multiple business lines to small manufacturers that offer a limited selection of niche products. Development by other companies of new or improved products, processes, or technologies may make our products or proposed products less competitive.

In the current environment of managed care, consolidation among health care providers, increased competition, and declining reimbursement rates, the Company may be increasingly required to compete on the basis of price. In order to continue to compete effectively, the Company must continue to create, invest in, or acquire advanced technology, incorporate this technology into its proprietary products, obtain regulatory approvals in a timely manner, and manufacture and successfully market our products. Given these factors, the Company cannot guarantee that it will be able to continue its level of success in the industry.

Because of the early stage of the industry in which the Company intends to operate, the Company expects to face additional competition from new entrants. To be competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

Product Liability

As a manufacturer and distributor of biomedical products, the Company will face an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. The Company may be subject to various product liability claims, including, among others, that its products caused injury or illness, include inadequate instructions for use or include inadequate warnings. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the Company's results of operations and financial condition. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all.

The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company intends to have detailed procedures in place for testing finished products, there can be no assurance that any problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's products were subject to recall, the image of the brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Consolidation in the health care industry could have an adverse effect on the business

Many health care industry companies, including health care systems, are consolidating to create new companies with greater market power. As the health care industry consolidates, competition to provide goods and services to industry participants will become more intense. These industry participants may try to use their market power to negotiate price concessions or reductions for medical devices that incorporate components produced by the Company. If the Company is forced to reduce its prices because of consolidation in the health care industry, revenues would decrease and consolidated earnings, financial condition, and/or cash flows would suffer.

The business is indirectly subject to health care industry cost-containment measures that could result in reduced sales of medical devices

Most of the Company's future customers, and the health care providers to whom future customers supply medical devices, rely on third-party payers, including government programs and private health insurance plans, to reimburse some or all of the cost of the procedures in which medical devices that incorporate components we manufacture or assemble are used. The continuing efforts of governmental authorities, insurance companies, and other payers of health care costs to contain or reduce these costs could lead to patients being unable to obtain approval for payment from these third-party payers. If third-party payer payment approval cannot be obtained by patients, sales of medical devices may decline significantly and customers may reduce or eliminate purchases of the Company's products. The cost-containment measures that health care providers are instituting, both in the U.S. and internationally, could harm the Company's ability to operate profitably.

The development of products depends upon the Company's ability to maintain strong relationships with physicians

If the Company fails to maintain working relationships with physicians, many of its products may not be developed and marketed in line with the needs and expectations of the professionals who use and support the Company's products, which could cause a decline in earnings and profitability. The research, development, marketing, and sales of the Company's products is dependent upon the ability to maintain working relationships with physicians. The Company relies on these professionals to provide knowledge and experience regarding the development, marketing, and sale of its products. Physicians assist as researchers, marketing and product consultants, inventors, and public speakers. If the Company is unable to maintain strong relationships with these professionals, the development and marketing of its products could suffer, which could have a material adverse effect on consolidated earnings, financial condition, and/or cash flows.

Dependence on Suppliers and Skilled Labour

The ability to compete and grow will be dependent on the Company having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components.

Difficulty to Forecast

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this stage of the medical device industry in Canada. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Operating Risk and Insurance Coverage

The Company intends to obtain insurance to protect its assets, operations and employees. While the Company believes insurance coverage can adequately address all material risks to which it may be exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability to deal with this growth may have a material adverse effect on its business, financial condition, results of operations and prospects.

Conflicts of Interest

Certain of the directors and officers of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

Litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect its ability to continue operating. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

The market price of the Common Shares may be subject to wide price fluctuations

The market price of the Common Shares may be subject to wide fluctuations in response to many factors, including variations in operating results, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company, general economic conditions, legislative changes, and other events and factors outside of the Company's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Common Shares.

Dividends

The Company has no earnings or dividend record, and does not anticipate paying any dividends on the Common Shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

Limited Market for Securities

There can be no assurance that an active and liquid market for the Common Shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

Financial instruments and risk management

Set out below is a comparison, by category, of the carrying amounts and fair values of all of the Company financial instruments that are carried in the financial statements and how the fair value of financial instruments is measured.

Fair values

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities. The Company has no level 1 financial instruments.
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices). Cash equivalents are classified as level 2 financial instruments; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Company has no level 3 financial instruments.

The carrying value of cash equivalents and accounts payable and accrued liabilities reflected in the statements of financial position approximate fair value because of the limited term of these instruments.

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (currency fluctuations, interest rates and commodity prices. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Credit Risk

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents. Cash and cash equivalents are composed of financial instruments issued by large Canadian financial institutions with high investment grade ratings and are closely monitored by management. Management believes credit risk with respect to cash is minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company prepares periodic capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. At December 31, 2016 the Company has a cash position of $715,290 (December 31, 2015 - $1,474). The Company had a net working capital deficiency of $1,800,558 (December 31, 2015 – working capital deficiency $1,674,258). The Company will require additional financing to continue operations.

Market risk

Market risk is the risk that changes in foreign exchange rates, commodity prices, and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Foreign exchange risk

The Company does not currently hold significant balances in foreign currencies to give rise to foreign exchange risk. However, the company is committed to developing further R&D operations in the United States as this is the largest global market for the Company's biomedical products. As these operations expand, significantly more of the Company's expenses are expected to be incurred in U.S. Dollars. While the Company intends to implement prudent exchange rate risk mitigation steps, changes in foreign exchange rates between the Canadian and U.S. dollars may have a significant impact on the Company's financial performance in the future.

Commodity price risk

The Company has no significant exposure to fluctuations in commodity prices. Manufacturing of the Company's biomedical products require certain chemical and biological commodities; however, the cost for such raw materials is not considered material to the overall performance of the Company.

Interest rate risk

The Company is not exposed to interest rate risk as it has no revolving loan facilities.

Outlook

To develop innovative technologies for obesity, weight management and female health & wellness. In addition to its recent acquisitions of **C-103**, a reformulation of orlistat from Chelatexx, LLC and assets from 40J's LLC, the Company is scheduled to launch their FDA cleared fertility product branded as **ToConceive** in the second quarter of 2017**.**

The ability of the Company to realize its business plan and continue operations is dependent upon the Company being able to commercialize a product for sale, to finance research, development and commercialization costs and compete in a competitive marketplace for obesity products. Although the Company believes it will be successful, there is no guarantee the Company will produce a product that is marketable or obtains consumer acceptance.

Restatement

During the preparation of the December 31, 2016 Consolidated Financial Statements, it was determined that the Company's prior year Consolidated Financial Statements required correction for the following reason:

The warrants issued include a down round (ratchet clause) whereby the exercise prices for the issued warrants cold be adjusted in the event the Company subsequently issues rights, options or warrants at a price less than 95% of the current market price, to existing shareholders of the company.

The summary of the adjustments is as follows:

	As previously reported	Adjustments	As restated
January 1, 2015			
Derivative liability	$ -	$ 302,833	$ 302,833
Share capital	40,969,783	(1,297,030)	39,672,753
Contributed surplus	8,231,930	(40,000)	8,191,930
Deficit	(49,405,291)	(1,034,197)	(48,371,094)
December 31, 2015			
Derivative liability	$ 357,647	$ 363,374	$ 721,021
Share capital	44,292,890	(2,279,343)	42,013,547
Contributed surplus	9,383,936	(202,964)	9,180,972
Deficit	(54,417,927)	2,118,933	(52,298,994)
Derivative fair value adjustment	(7,295)	(1,084,736)	(1,092,031)

Additional Information

Additional information on the Company can be accessed through www.sedar.com.